

Message Text

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17

ACTION EB-07

INFO OCT-01 NEA-10 ISO-00 ERDA-05 AID-05 CEA-01 CIAE-00

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R 120720Z APR 76

FM AMEMBASSY ABU DHABI

TO SECSTATE WASHDC 4181

INFO AMEMBASSY JIDDA

AMEMBASSY TEHRAN

AMEMBASSY TOKYO

AMEMBASSY DOHA

AMEMBASSY KUWAIT

C O N F I D E N T I A L ABU DHABI 0949

E.O. 11652: GDS

TAGS : ENRG, TC

SUBJECT : ABU DHABI GAS LIQUEFACTION COMPANY AGREES ON PRICE FOR
LNG WITH TOKYO ELECTRIC POWER COMPANY

1. AFTER TWO YEARS OF TOUGH BARGAINING, ABU DHABI GAS LIQUEFACTION CO. (ADGLC), PARTNERSHIP OF ABU DHABI NATIONAL OIL CO, AND CONSORTIUM OF INDUSTRY FIRMS, HAS REACHED AGREEMENT WITH TOKYO ELECTRIC POWER COMPANY (TEPCO) ON PRICE AT WHICH LNG AND LPG WILL BE SUPPLIED FROM ADGLC DAS ISLAND PLANT. PRODUCTI F FROM THE DAS PLANT, EXPECTED TO BEGIN JANUARY 1977, WILL BE 2.2 MILLION TONS LNG AND 800,000 TONS LPG ANNUALLY. ENTIRE PRODUCTION, WITH EX-CEPTION INSIGNIFICANT QUANTITIES LPG, IS TO BE PRUCHASED BY TEPCO.

2. ORIGINAL PRE-OCTOBER WAR CONTRACT BETWEEN ADGLC AND TEPCO PUT PRICE AT ABOUT ONE DOLLAR PER MILLION BTUS. FOL-LOWING WAR ADGLC (SUPURRED BY ADNOC) INITIALLY DEMANDED CONTRACT REVISION FOR PRICE INCREASE THAT WOULD MATCH FOUR-FOLD INCREASE IN OIL PRICES. JAPANESE AGREED TO RENEGOTIATE
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CONTRACT ONLY VERY RELUCTANTLY AND OVER PAST 2 YEARS TWO SIDES

HAVE GRADUALLY NARROWED GAP TO MIDWAY POINT. AGREEMENT FINALLY REACHED IS ON BASIC PRINCIPLE OF PRICE PARITY WITH CRUDE OIL ENERGY EQUIVALENT, WITH TEPCO HOWEVER GETTING DISCOUNT FOR FIRST 3 YEARS OF PRODUCTION. PRICE FOR 1976 IS \$1.90/MBTUS DELIVERED IN JAPAN (NOW ACADEMIC SINCE THERE IS NOT EXPECTED TO BE PRODUCTION IN 76); FOR 1977 \$2.00; FOR 1978 \$2.05 PLUS OR MINUS DIFFERENTIAL IN PRICE OF CRUDE FOR 1977 AS OPPOSED TO 1976; FOR 1979 THE 1978 PRICE PLUS OR MINUS DIFFERENTIAL IN PRICE OF CRUDE FOR 1978 AS OPPOSED TO 1977; FOR 1980 AND ONWARDS FOR REMAINDER OF 20-YEAR CONTRACT, CRUDE OIL EQUIVALENT FOR PREVIOUS YEAR. TERMS ASSUME PRICE OF CRUDE OIL WILL IF ANYTHING RISE NEXT FEW YEARS; HOWEVER IN UNLIKELY EVENT GLUT OF CRUDE SHOULD FORCE CRUDE PRICES DOWN CONTRACT WITH TEPCO PROVIDES FOR FLOOR PRICE FOR GAS OF \$1.96/MBTUS FOR 1978 ONWARDS.

3. PASSAGE OF TIME SEEMS TO HAVE SLIGHTLY FAVORED TEPCO IN NEGOTIATING AS PRESSURE GRADUALLY BUILT ON ADGLC TO GET CONTRACT SIGNED IN TIME FOR COMPLETION OF PLANT. ACCORDING TO OUR INDUSTRY SOURCES ADNOC GENERAL MANAGER HAMRA KROUHA, WHO HAD PREVIOUSLY TAKEN VERY TOUGH LINE, WAS ON LAST NEGOTIATING SESSION CLEARLY ANXIOUS TO REACH AGREEMENT. IT IS POSSIBLE THAT HAVING BEEN OVERRULED BY FOREIGN MINISTER SUWAIDI ON RECENTLY CONCLUDED ON-SHORE LPG PROJECT, HE SAW THAT GOVERNMENT HERE WAS GETTING IMPATIENT WITH HIS HARD BARGAINING TACTICS.

4. ALTHOUGH FINAL AGREEMENT BETWEEN ADGLC AND ABU DHABI GOVERNMENT HAS YET TO BE SIGNED, TERMS ARE LIKELY TO BE GOVERNED BY THOSE AGREED TO IN PRINCIPLE BY TWO SIDES IN 1972. IN THIS RESPECT THERE ARE SOME INTERESTING CONTRASTS BETWEEN ADGLC TERMS AND THOSE JUST CONCLUDED WITH ADPC GROUP FOR ON-SHORE LPG PROJECT, REFLECTING SHIFT DURING THIS PERIOD TOWARD BUYERS MARKET FOR GAS PRODUCTS OVER NEXT DECADE AND BEYOND. TWO AGREEMENTS WILL WORK ON SAME PRINCIPLE, I.E. AGREED LEVEL OF PROFIT RETURN "EXPENSED" IN REFERENCE YEAR TO DETERMINE SUM CONSORTIUM PAYS GOVERNMENT FOR GAS (TAX RATE ON BOTH PROJECTS FIXED AT 55 PERCENT), WITH ANY DIFFERENTIAL IN SUBSEQUENT YEARS SPLIT 50/50 BETWEEN CONSORTIUM AND GOVERNMENT. BUT WHEREAS GOVERNMENT GRANTED ADPC GROUP 18 PERCENT RETURN OF PROFIT, ADGLC EARLIER GOT ONLY 15 PERCENT. ALSO, WHILE AGREEMENT WITH ADPC

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MAKES SERVICING OF FINANCED PORTION OF PROJECT AN EXPENSED ITEM, UNDER EXPECTED ADGLC TERMS DEBT WILL BE SERVICED BY INDIVIDUAL MEMBERS OF CONSORTIUM OUT OF THEIR 15 PERCENT PROFIT. NEVERTHELESS, UNDER CONTRACT NOW CONCLUDED WITH TEPCO, AND ON BASIS OF CAPITAL INVESTMENT ACTUALLY MADE, ADGLC EXPECTS TO MAKE DECENT PROFIT--" SOMEWHAT MORE THAN 15 PERCENT." ADGLC IN CONTRAST TO ADPC OF COURSE BENEFITS FROM HAVING GOTTEN PROJECT UNDERWAY YEARS AGO, WHEN COST OF EQUIP-

MENT WAS FRACTION OF WHAT ADPC WILL NOW HAVE TO PAY.

5. CONCLUSION OF DEAL WITH TEPCO IS GOOD NEWS FOR ABU DHABI, ESPECIALLY COMING RIGHT AFTER AGREEMENT ACHIEVED WITH ADPC FOR ONSHORE GAS PROJECT. ABU DHABI LEADERS APPEAR TO HAVE RECOGNIZED THAT WHILE YOU CAN BE GAINING PENNIES BY HAGGLING A LA HAMRA KROUHA, YOU CAN BE LOSING DOLLARS THROUGH LOSS OF TIME. GOVERNMENT SEEMS GRADUALLY TO BE EDGING TOWARD FASHIONING MORE STABLE BASIS FOR ITS ENERGY DEVELOPMENT, AND CONFIDENCE BETWEEN INDUSTRY PARTNERS AND ADG, AT ABSOLUTE LOW POINT FOLLOWING ABU DHABI CONFERENCE OF NOVEMBER 1974, ALSO SEEMS GRADUALLY TO BE EDGING UPWARD. AGREEMENTS ON GAS DEVELOPMENT MAY PRODUCE HAPPIER PSYCHOLOGICAL CLIMATE FOR GOVERNMENT AND OIL PARTNERS TO SIT DOWN AND TALK ABOUT REVISED TERMS TO GIVE COMPANIES GREATER INCENTIVE TO INVEST THEIR 40 PERCENT SHARE IN OIL DEVELOPMENT; SOMETHING LONG OVERDUE IN COMPANIES' VIEW.

6. ADGLC, BY THE WAY, IS NOW OWNED (DECIMALS DROPPED)
51 PERCENT BY ADNOC; 16 PERCENT BP; 8 PERCENT CFP; 23 PERCENT MITSUI; 2 PERCENT BRIDGESTONE.
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